

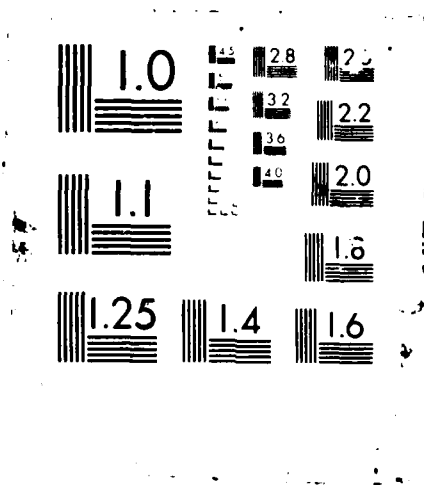
INDIA'S SEVENTH FIRE-YEAR PLAN: NEW DEPARTURES OR  
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A Report  
for the United States Department of State

by

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This report assesses India's Seventh Five Year Plan (1985-1990) in the context of recent economic developments and examines prospects for the future. It specifically (1) reviews the contents of the plan--what the plan says; and compares the Seventh Plan with previous plans; (2) identifies the plan's strengths and weaknesses, with a focus on potential difficulties in implementation; (3) considers the ways in which the policies articulated in the plan will interact with other economic policies; and, (4) discusses the plan's implications for United States policies towards India and for American private business activities in India.

#### Background and Introduction

The salient point about all of India's plans taken together is that they have worked; arguably they have worked well. It is possible that they could have worked better in their sectoral, detailed applications and it is possible that less planning, or more planning, might have yielded better results. There is thus room for dispute and debate and this discord has frequently been fueled by sharp ideological differences that stretch across the range of competing political and economic philosophies. These controversies should not, however, obscure the undeniable fact that over the past four decades India's plans have in the main achieved the aims they were designed to achieve.

India's plans have succeeded because they have moved the Indian economy towards the targets of economic performance Indians set for themselves after independence in 1947. Planning has been the instrument by which Indians have established a



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consensus about the structure of their economy, set its vital directions of movement, and determined how its fruits shall be distributed among various social groups.

In 1947, the new Indian government inherited an economy characterized by declining food production and a sluggish and narrowly based industrial sector. The national road and rail system was inadequate and rundown; illiteracy was high and the few schools and colleges catered mostly to members of elite castes; health services were inadequate. The villages, where the bulk of the population dwelled, lacked access to roads, clean water, sanitation, schools, and ways to improve agriculture.

Broadly speaking, the early plans set their sights on (1) raising the output of food faster than the population was growing; (2) creating a solid industrial base across the whole spectrum of products--chemicals, electrical goods, cement, machine tools, and, importantly, defense goods--manufactured in a modern economy; (3) providing ample irrigation, power, and transport infrastructure to permit agriculture and industry to attain these goals; and, (4) generating sufficient employment and engaging in effective enough social welfare programs to reduce poverty and uplift what the planners liked to call the "weaker sections" of the population, thereby ensuring that the benefits of growth were fairly widely shared. The country's 500,000 villages were to be increasingly integrated into the national economy so that urban-rural and agricultural-industrial dualism was reduced; and, villagers were to participate in national politics and in framing their own destinies through community development and a system of

village councils (panchayats).

Doing all of these things rapidly depended on the government's assuming a very active role in the economy and India's planning was in this sense "socialist." The economy remained substantially "capitalist," however, because all of agriculture, virtually all commerce and shopkeeping, and most light and consumer industries were privately owned and managed. In fact, over the whole era of planning the definition of roles for the state and private sectors has been clearly demarcated and almost unchanging. There appears little sentiment in India for an alteration in the way the line has been drawn between the public and private sectors.

When it is said that India's plans "worked" what is meant is that the aims the nation set for itself at independence have been realized. India's output of food has risen by about 2.8 percent per year on average as compared to population growth of about 2 percent; there are 30 million tons of grain in storage, enough to ride out two successive bad monsoons. Manufacturing activity has been broadened and deepened while the industrial sector has expanded, on average, at a rate of about 6-7 percent per year. Power output has increased by roughly 10 percent per year; irrigated acreage has risen sharply; the road and rail systems have been extended and are more intensively utilized. Strong efforts have been made in such fields as health, education, and poverty alleviation and indicators of social progress have all moved in the desired directions.

It is against this background that the Seventh Plan must be evaluated. The new plan shares many continuities with the early

plans: in philosophy, aims, and mechanisms. On the whole the continuities far outweigh the departures and the Seventh Plan is a direct lineal descendant of its precursors. Because planning is perceived by most Indians to have worked, the national commitment to planning has not been substantially reduced. The nature of planning, the contents and priorities of the plan itself, and the programs and policy instruments of the plan have constantly evolved, however, and the Seventh Plan is therefore distinctive. Like previous plans, the Seventh Plan is in many ways a flawed plan and it will certainly fail fully to hit its sectoral and aggregate targets. In 1990, critics will find much to condemn and the planners and officials will vow to do better during the Eighth Plan. Nonetheless, when the dust settles, the Seventh Plan will assuredly have ratcheted upwards the national economy and with it the living standards of India's 700,000,000 people.

#### The Seventh Five-Year Plan: Tone and Themes

Any plan has a characteristic tone and is unified by attention to certain themes. Since Rajiv Gandhi assumed the Prime Ministership India's mood has been decidedly upbeat and optimistic, at least as far as the economic potential of the nation is concerned. There is a forceful confidence emanating from public officials in Delhi and from private businessmen that is unprecedented in India's short post-1947 history. This confidence stems from the cumulative economic successes of the past forty years and a sense that the economy is poised for an appreciable forward movement. The Seventh Plan fully

embodies this new spirit and, indeed, may overreach itself in the euphoria of the moment--not a wholly bad posture since the main purpose of planning is to spur the economy and stretch it beyond the limits it would have reached without planning. This plan is a damn-the-torpedoes full-speed-ahead plan. Throughout the plan document there is an absence of doubt that even the most grave problems can be solved by the implementation of new programs or the more successful operation of old ones. Expectations are thus high.

Prior to undertaking a detailed examination of key sections of the plan it will be useful to delineate three thematic concerns that link many of the plan's 27 chapters contained in its two volumes. [Note: References to the plan documents will be by volume number and page; e.g. I,67.] By "theme" is meant a connected set of observations, ideas, problems, and methods of attacking the problems.

Echoing remarks that the Prime Minister has made since entering office, the Seventh Plan emphasizes the urgency of raising the operating efficiency of the economy. During the Sixth Plan (1980-1985) India's savings rate rose to 24-25 percent of national income and the nation's investment rate was a point or two higher because of foreign aid. Normally, each three percentage points of savings and investment would be expected to translate into one percentage point of growth; thus, India's growth could have been anticipated to be about 8 percent. Instead, it was slightly over 5 percent: respectable but disappointing given the sacrifices a poor country must make to save at these high rates [I,v]. This most aggregative evidence of economic inefficiency is reinforced by a battery of other observations: the



substantial deficits in public sector firms; an extremely low rate of utilization of the productive capacity of private firms (about 60-65 percent); production of electricity at only half the rated capacity of the nation's power stations.

The means proposed in the Seventh Plan to raise the operating efficiency of the economy's public and private industrial sectors, and of infrastructure, are to improve management, rapidly to absorb modern western technologies--especially in computers, electronics, and controls, and to upgrade obsolete capital stock. Virtually every chapter of the plan calls for attaining the most rapid technological progress--in agriculture, industry, transportation, education, and health. In addition, the plan stresses that emphasis is to be on completing in a timely way the overhanging projects that were undertaken in earlier plans. New large-scale irrigation and power works, for example, are eschewed in favor of finishing old projects and raising the operating efficiency of those already in hand.

A second thematic arena of concern is one that has been at the center of all previous plans. India will continue to try to deal with the complex of problems associated with its rapid population growth: rampant underemployment and unemployment, pervasive poverty, and limited educational opportunities. There is the assertion that if the planned 6 percent rate of growth can be sustained--which would be higher than the rate realized in any earlier plan--then sufficient employment will be generated to absorb increments to the labor force and even to make a start at mopping up existing unemployment. The Sixth Plan appears to have reduced by about one-third the proportion

of people living below the poverty line because of the effectiveness of some of its programs and because a rate of economic growth of just over 5 percent was attained. Improvements in the educational system and its output of human resources are required if the efficiency and technological goals and the employment forecasts of the Seventh Plan are to be actualized. Indeed, the plan is so bold as to propose the elimination of illiteracy and the attainment of universal education over the near-term. The emphasis on education in the Seventh Plan has been reinforced by an assessment of the national educational system contained in a crash report commanded by the Prime Minister in 1985-86.

The third thematic concern of the Seventh Plan is, like the first theme, a distinctive novelty. The substantive sections of the plan clearly identify environmental problems in the various sectors of the economy, trace the implications for the environment of the proposed programs and anticipated growth paths, and strongly advocate countervailing actions. Indians no longer believe as strongly as they did that protection of the environment is too expensive for a poor country. For the first time, an Indian plan features awareness of the environmental damage being done by deforestation, erosion, overgrazing, and the depredations of traditional and modern agriculture and industry. This concern is linked to India's underlying shortages of fossil fuels, except of intermediate qualities of coal, and other natural resources. In consequence, emphasis is placed on developing social forestry, commercial production of biomass, and biogas, and more closely monitoring and regulating the social costs of industrialization and

agricultural modernization.

To sum up: the Seventh Plan is an aggressive plan that seeks to attack three interrelated, complex problem areas: operating inefficiencies in the public and private sectors; rapid population growth, poverty, underemployment, and insufficient educational opportunities; and, the impending energy, natural resource, and environmental stresses associated with rapid population growth and accelerating economic growth.

The various sections and chapters of the Seventh Plan and its specific targets, projects, and programs revolve around these themes. We turn now to a detailed examination of the more important of these concrete aspects of the plan.

#### The Seventh Plan: Targets, Projects, and Programs

The format of the plan documents has changed very little over the years. Like its precursors, the Seventh Plan offers a macroeconomic overview of the plan: expected growth, savings, and investment rates; domestic and foreign sources of finance to help attain these expected rates; exports, imports, and the trade balance; and sectoral allocations of plan expenditures. Efforts are made to reconcile these targets and flows and make sure they are consistent with each other. Subsequent chapters are devoted to agriculture, industry, infrastructure, and the social sectors. Again, the physical targets put forward in these chapters are supposed to be consistent with each other (e.g. sufficient steel to build the roads, buildings, and machinery required) and with the macroeconomic and financial forecasts.

The Seventh Plan retains this structure in its two volumes: I, **Perspective, Objectives, Strategy, Macro-dimensions and Resources** (78pp); II, **Sectoral Programs of Development** (421pp). Perhaps as much as any simple feature can, the retention of the same format over the course of the seven plans evidences their uniformity and continuity.

The sectoral allocation of plan expenditure is as follows:

Agriculture and Rural Development	12.66%
Irrigation and Flood Control	9.43
Energy	30.45
Industry and Minerals	12.48
Transportation and Communication	16.36
Social Services	16.31
Science	1.37
Other	<u>0.94</u>
Total	100.00%

These proportions, of the development budget are ordered like those of past plans. Power and infrastructure have always absorbed the lion's share. Agriculture and irrigation usually get a little less than one-quarter of the expenditures and social services receives its usual moiety. What is different in this plan is that the share going to energy is up sharply to an even higher level; energy's share was, for example, only 15 percent in the Fourth Plan. To some extent this gain comes at the expense of transportation and communication's share, but in relative terms the expenditure on industry has been forced below its historic average. In the fourth plan period, for example, industry and minerals took 23 percent of the resources; the Seventh Plan devotes only 12.48 percent of its

funds to industry. This is puzzling, given that industry is expected to grow at a rate substantially above its trend line of the past 30 years.

#### Macrodimensions of the Plan

An important feature of the Seventh Plan is that it is simultaneously a five-year plan and a fifteen year perspective plan extending to the year 2000. The Preface says, "The objectives and thrusts of the Seventh Plan have been formulated as part of the longer term strategy which seeks, by the year 2000, to virtually eliminate poverty and illiteracy, achieve near full employment, secure satisfaction of the basic needs of food, clothing and shelter and provide health for all." [I,ix]

The plan's growth targets are to attain: at least a 5 percent annual growth rate of national output; a 4 percent rate of agricultural growth; and an 8 percent rate of industrial growth. These rates are, as the plan notes, a "significant improvement over past trends." [I,ix-x] These growth rates will push up employment by 4 percent per year, well in excess of the 2.5 to 2.6 percent growth in the labor force. [I,x] More zealous implementation of poverty relief programs will, in conjunction with this rapid employment expansion, push down the ratio of people living below the poverty line from 37 percent to less than 26 percent in 1989-90. [I,xi] Investment in power, transport, and coal will rise sharply in order to ease shortages and bottlenecks which arose during the previous plan; heavy plan expenditure will raise energy output at an annual rate of 12.2 percent.

The savings and investment rates will climb, respectively,

from 23.3 to 24.5 percent and 24.5 to 25.9 percent of gross domestic product (GDP) between 1985 and 1990. The balance of payments deficit will average 1.6 percent of GDP and debt service will consume only one-fifth of current export and service receipts. The share of taxes in GDP will have to rise by 2 percent and the public sector enterprises will have to generate substantially greater profits. On the whole, the plan believes these are feasible projections. They are in keeping, certainly, with the conservative macroeconomic management practices and prudent external borrowing habits of all modern Indian governments-- policies that have kept India from suffering either runaway inflation or catastrophic debt crunches of the type currently afflicting most Latin American and African nations.

If the plan has a single focal point it is "the generation of productive employment" by pursuit of a multipronged strategy:

"This will be achieved through increase in cropping intensity made possible by increased availability of irrigation facilities, extension of new agricultural technologies to low productivity regions and to small farmers, through measures to make the rural development programmes more effective in the creation of productive assets, through the expansion of labour intensive construction activities for providing housing, urban amenities, road and rural infrastructure, through the expansion of primary education and basic health facilities and through changes in the pattern of industrial growth."  
[I,23]

Although the weight placed on raising the rates of growth of agricultural and industrial output and employment is obvious, the Seventh Plan retains the government's very strong commitment to redistributive justice and the reduction of economic disparities. Indeed, it is unlikely that any government in democratic India could ignore this double commitment and survive in power. The

plan does not accept the notion that there must be a trade-off between growth and equity, arguing that appropriate policies make possible the simultaneous realization of rapid growth and the reduction of interpersonal and interregional inequalities. It appears that 36 million people rose above the poverty line during the Sixth Plan and another 62 million are to be so elevated during the Seventh Plan. [I,32] Raising the yields of rice, coarse cereals, pulses, and oilseeds and developing local human resources will help moderate differences in average output and income levels across states. The present formula for distributing central expenditures strongly favors the states with lower per capita incomes. [I,44]

#### Agriculture and Rural Development

The target growth rate of 4 percent for agriculture will yield 180 million tons of foodgrains in 1989-90, up from a base of 150 million tons at the end of the Sixth Plan. [II,5] It is estimated that perhaps as little as 15 percent of India's arable land was responsible for as much as 56 percent of the post-green revolution gains--and, of course, most of this was in the northwestern wheat zone. The Seventh Plan aims to raise the output of rice in the eastern part of the country as a means of stimulating rural development in such states as Bihar, West Bengal, and Orissa, and in eastern U.P. A Special Rice Production Program for the Eastern Region is to be instituted. As with the wheat revolution, emphasis will be on new genetic strains, extension credit, absorption of fertilizers, and, most critically, better water control.

The 4 percent growth rate for agriculture is high by Indian

and known world standards. Raj Krishna regarded a 2.6 growth rate as high and pointed out that it was based on 10 percent annual gains in HYV acreages and fertilizer use. He believed the marginal costs of added output are rising. [Roach,173]

Three other dimensions of agriculture are featured in the plan. India's production of edible oils has lagged far behind consumption and the resultant import bill has exerted strain on the balance of payments. This is avoidable since India has the capacity to produce enough oilseeds for its needs. There is thus to be a National Oilseeds Development Project. Likewise, output gains for the millets and pulses, which are widely grown in the rainfed, semi-arid central Deccan, have not been rapid--in fact, for some of these minor crops growth has been negative. Thus, a new program is targeted at watersheds of rivers in rainfed agricultural zones. Social forestry is to receive urgent attention. The effect of these programs will be to provide long overdue benefits to many poor and marginal farmers outside the nation's main farming regions and to ease the rural energy crisis.

In each of these cases--the rice, oilseeds, watershed, and social forestry programs--new applied technologies will be required and here, as elsewhere in the plan, stress is put on rapid development of indigenous technological capacity. Such breakthroughs will be necessary if the following ambitious annual growth targets are to be met: rice 4.00-4.56 percent; pulses 2.90-4.25 percent; oilseeds 6.72 percent. The output of key commercial crops is also expected to grow strongly: sugarcane



3.81 percents: cotton 4.84 percent; jute 4.84 percent. [II,5]  
Tea, coffee, rubber, vegetables, fruits, spices, and milk products are all to receive continuing pushes to meet rapidly expanding demand as personal incomes grow. Although much needs to be done to up the pace of planting trees in national forests and around villages, social forestry programs lack a clear model. [II,41]

There are no new departures in the methods to be used to elevate crop yields. Solid research and broad village-oriented extension programs are called for; marketing and storage facilities are to be improved. The plan voices concern about the continued failure to get cooperatives to work well, in the interests of all the farmers. Problems of loan recovery persist: about 40 percent of outstanding loans are in default. [II,25]

India's steps to remedy rural poverty are predicated on programs designed to reach certain populations. The desire is to create a framework of opportunity within which people can respond productively, not to create a subclass permanently dependent on doles or meaningless makework. It is known, of course, although the plan only touches tangentially upon the matter, that the old elites who dominate the rural social structure are able to manipulate such programs to their advantage. Nonetheless, if the numbers are to be believed, there is evidence that a set of programs that were applied with force in the Sixth Plan has helped alleviate rural poverty and unemployment. These are the Integrated Rural Development Program, the National Rural Employment Program, the Rural Landless Employment Guarantee Program, the Minimum Needs Program, the Training of Rural Youth

for Self-Employment Program, and the Drought-Prone Area Program. [II,50-52ff.] A fair guess is that, in fact, these programs have to some extent succeeded and have generated tangible results. The numbers--jobs created, miles of roads built, and so on--have, in most cases, moved in the right directions.

Interestingly, the Seventh Plan renews the call for palpable land reforms, despite the well-known reliance of the Congress Party on the support of the large farmers. Land reforms include ceilings on the size of holdings, land redistribution, and land consolidation. While not much may come of this call, its vigor is noteworthy. C.T. Kurien has recently commented that growth makes assets, including land, more valuable, and thus increases resistance to redistribution of wealth. [Roach,191] Thus, India's landownership may be more or less locked into its present pattern.

A revivalist twist on an old theme is the plea for greater involvement of private voluntary agencies in rural development and forestry. Such agencies have a long tradition in India and some have even accomplished things from time to time, but it is surprising to see joint government-private agency cooperation pushed fairly hard in this part of the plan and elsewhere. [II,69]

One of the strong points of India's plans over the long run has been the achievements in irrigation. These have undergirded the green revolution and been the basis for the tremendous gains in foodgrains output. The Seventh Plan continues this thrust ("thrust" and "thrust area" are favorite terms in this plan) and

continues the recent emphasis on smaller, local irrigation projects--not the huge multipurpose schemes of earlier years. Seepage and salinization are to be combated; priority is to be given to projects in scheduled caste, tribal, and drought-prone areas; and better in-field use of existing waterways is to be sought. [II,71] As a result of the planned schemes, 2.2 million hectares per year were irrigated in the Sixth Plan. The Command Area Development program is aimed at improving the efficiency of existing facilities. A difficulty has been that incentives and water prices for farmers do not encourage efficient, equitable use of water in the villages. A new "warabandi" (rostering system) program is supposed to help deal with this problem, but its details are not specified. [II,82]

Without question, the achievements in agriculture of India's plans are remarkable. The most obvious measure of success is the growth of agriculture at a rate above population growth; a simple statistic of telling force is that output of foodgrains has tripled from 50 to 150 million tons since 1950. Many of India's farm families are much more affluent than they were twenty years ago and, although there is dispute about the matter, agricultural growth appears to have benefited many small farmers and landless laborers. Rural India is now a growing market for agricultural inputs and machinery and for consumer goods, thus stimulating industrial growth.

What is more fundamental is that India now has the capacity--and knows it has the capacity--to carry over to new crops and into new regions the lessons and methods that brought the wheat revolution to the northwest. There is indigenous

capacity to develop the necessary seeds and packages of inputs; to develop water resources; to provide credit and extension services; and, to control at least the worst excesses of the rich elites in order to prevent abuse or monopolization of these programs and resources. This capacity is the basis for the new enthusiasm for an attack on the phlegmatic rice economy of the eastern zone whose traditional rice cultivation and intractable agrarian relations have, up to the present, dampened participation in the green revolution. Similarly, the thrust towards the arid regions and their crops--pulses, millets, and oilseeds--is also courageous but not imprudent, although technologies are still problematic.

Thus, the agricultural strategies of the plan are, while ambitious, cogent and feasible. They appear to have an excellent chance, under normal weather conditions, of yielding the desired results or coming very close. Particularly exciting would be measurable breakthroughs in the rice districts of the east; this would have important implications for balancing growth in the national economy and for national politics.

#### Industry

Since the second plan period each of the five year plans has been committed to fostering rapid industrial growth and widening the breadth of the industrial sector. Generally, the average growth achieved in this sector has been between 5 and 8 percent per year. There has been some concern that industrial growth slowed after about 1965 but recent superior statistical work shows that the secular rate since independence has been more or less constant at about 6-7 percent, with considerable variation.

across subsectors. [Acharya and Adams 1986] The growth rate in the Sixth Plan was 5.5 percent per year (against a 7 percent target) and the rate for the industrial sector projected for the Seventh Plan is at least 8 percent "with selected segments of it having been projected to grow at much higher rates." [II,170]

In the main, India's decision to pursue the course of attaining self-reliance in basic industries, such as steel, machine tools, defense goods, heavy electricals, and primary chemicals, appears in retrospect to have been a good one. Combined with expansion across a broad range of consumer goods industries, these core industries give India a globally formidable industrial sector. It is difficult to see how the breadth and pace of industrial growth could have been attained without central planning, which both created the core industries and provided the framework within which private firms operated.

Despite these achievements, India's experience with inward-looking import-substitution policies has been a textbook example of the negative features of such a strategy. The industrial sector is now characterized by high cost production; poor quality of consumer and industrial goods; lethargic management; extremely poor export performance; weak research and development programs; and, technological obsolescence. Long years of servicing the closed home market at administered prices and the absence of foreign competition have left India's public and private businesses unprepared to deal with the modern, interdependent world economy. The Seventh Plan recognizes these lessons and says, "The time for corrective action is now." [II,167] The

established industrial interests have close ties to the Congress Party, however, and there is majority sentiment in India in favor of socialism and state-guided business, so that the degree to which such corrective action can be applied is limited.

High costs and low rates of capital utilization in Indian industry are not only attributable the pursuit of an import-substitution development program. Shortages and shutoffs of power substantially raise the costs of producing goods, as do poor rail, road, and port facilities; these influences would act regardless of whether an inward- or outward-looking development plan prevailed and afflict the public and the private sector industrial firms equally. India also suffers from a poorly developed information network linking the government's research centers and laboratories to public and private firms. Human resource development is still rudimentary and labor productivity is low, although India has the world's third largest pool of scientific, engineering, and technical personnel.

A significant new problem is that India's first generation industries and large-scale infrastructure facilities are now aging and their technologies are growing obsolete. Hydropower turbines, the steel mills, chemical plants, and the railways all need substantial renovation and applications of new technology. Because these were lumpy, long-gestation investments in the first place, this second cycle of industrialization--India's re-industrialization, if you will--will be costly and protracted.

The Seventh Plan does not propose any dramatically new directions in industrial development strategy. What is most evident is that technology has been elevated to the highest level of attention. Every possible effort is to be made to create, adapt, and apply

modern technologies to all phases of production and management. Indigenous capacities are to be strengthened and, importantly, India is to become very aggressive in seeking foreign collaboration to obtain access to state-of-the-art technologies. [II,169] The sunrise industries like telecommunications, computers, microelectronics, ceramic composites, and biotechnology are to be featured. [II,171]

The government is to remain firmly in charge of the directions of industrial development; indeed, its role in coordination may be enhanced through use of the planning system as well as by direction of the financial resources under its command in the nationalized banking system and in the 50-odd development finance agencies that operate in India under center and state auspices. Coordination is to be strengthened between the public and private sectors; among large, medium, and small firms; and, between central and state plans for industrial development. [II,172]

At the subsectoral level there are no unexpected departures. There remain problems of costs and product mix in the iron and steel mills and chronic shortages of high quality coking coal retard production. [II,177] India's large steel plants are becoming increasingly obsolete and an expansion of the newer mini-mills is programmed. Zinc, lead, and copper refineries continue to be plagued by power shortages and inefficiencies. During the Sixth Plan the coming on stream of the Maruti car gave a fillip to machining industries but, generally, this crucial manufacturing sector is handicapped by obsolescence. Cement, fertilizer, cotton textiles, jute textiles, sugar, drugs and

pharmaceuticals, and commercial vehicles were not produced at target levels in the Sixth Plan and problems of efficiency, capacity utilization, and technological modernization remain to be dealt with in the Seventh Plan, which proposes to do so. In (unspecified) thrust industries, which have a dynamic comparative advantage, new technology is to make India internationally competitive.

India's small-scale industrial sector and the allied informal sector should not be underestimated as dynamic components of the economy. The small-scale sector employs more workers than any other sector except agriculture; generates half the value-added of the whole manufacturing sector; and accounts for one-third of the nation's exports. [II,98] Units in this sector are affected by power outages, inadequate infrastructure, and short supplies of raw materials, just as the large-scale firms are, but in addition face difficulties in obtaining credit and in marketing. This sector includes khadi; village industries; handlooms; sericulture; handicrafts; and coir, among the traditional activities; and, modern small-scale industries and the powerloom sector. The Seventh Plan pledges more aid in the form of credit, industrial sites, and marketing. It is difficult, however, and perhaps unwise, to try to reach this extremely elusive and dispersed sector. Even data on the sector are hard to come by and, while it is thought to have grown very rapidly--perhaps at a rate of 8-10 percent per year, no one really knows. There is the danger that too much "help" could quash the spontaneous vitality of this sector--particularly because many of its operations are illegal or were designed to



evade governmental oversight in the first place.

Can Indian industry grow at 8 percent or more per year? This may well be the most critical single number to watch during the Seventh Plan. There is nothing inherently infeasible about this projection, given India's underutilized industrial plant, even if that plant is aging and technologically somewhat laggard. What is required to attain the 8 percent target is precisely what the plan says: more efficient operation across the board; new technologies; and the easing of power, transport, and raw material fetters. With a savings rate of about 24 percent and a difficult, but not unmanageable foreign exchange position, the resources are available to maintain a high rate of investment. What remains to be seen is how quickly the level of operations of key public sector firms (such as steel) and infrastructure (particularly electric power) can be raised because this will then provide the rest of the public sector and the private sector with eased supply and more robust demand conditions and enable the rest of the economy to meet its objectives.

What is not particularly relevant in principle or functional in practice is the degree of "liberalization" or "privatization" India adopts. What really matters is attaining more efficient management of resources and operations throughout the entire industrial sector, regardless of its pattern of ownership.

Infrastructure

Enough has been said to make redundant any extensive remarks about the deficiencies of India's infrastructure. The most severe constraint on the growth of agriculture and industry is the shortage of power, particularly electricity. The household

sector is seriously afflicted by shortages of fuelwood and few homes are electrified. Transport uses over 30 percent of India's energy, so energy shortages raise transport costs and thus constrain agricultural and industrial expansion.

India's state-managed petroleum industry has been well-run and has found and produced more oil than expected under the plans. India has satisfactory coal reserves but their quality and location are less than ideal. A failure during the last part of the Sixth Plan was to move sufficient coal away from the pitheads to places where it could be used. Hydroelectric resources are considerable, particularly if Nepal's potential is factored in, but promising sites in the far north are distant from major industrial centers.

Against this background the Seventh Plan proposes to follow a multipronged strategy: to emphasize conservation; to improve handling, storage, and transmission of energy supplies; to upgrade operations in the coal and thermal power sectors, where productivity and efficiency are horrendously low. A major problem, particularly for the states' electricity boards, has been to engage in appropriate pricing of energy--low prices have been politically magnetic, and the Seventh Plan follows the Sixth in urging that prices reflect the costs of production. This will probably not happen in full, but some adjustments would reduce subsidies.

The plan emphasizes the use of renewable energy resources and proposes devising integrated rural energy programs. [III,129]

Demand for petroleum and other energy sources is going to

expand very rapidly through the year 2000. What the exhortations and directives of the plan plainly evidence is that India will have trouble meeting this demand on the best assumptions about conservation, pricing, internal resource development, power station construction, and costs of imported fuels.

Road and rail transport are substantially overburdened. The largely private road transport system is carrying a rapidly rising share of the nation's freight and passengers. The rail network remains a vital conduit for heavy loads that need to be shipped over long distances. Maintenance is poor, however, and about one-quarter of the rail lines and many roads require extensive repairs or complete reconstruction. Rolling stock is overaged and the phasing out of steam locomotives is long overdue. The plan hopes to begin the large task of replacing old equipment and injecting new technologies. [II,208] Rural roads to tie more villages into the national transportation grid are an urgent priority--less than half of India's villages have access to all-weather roads. State-run bus systems continue to accumulate large losses because of fares set below costs.

Improvements are to be attained in air transport, ocean and coastwise shipping, and in telecommunications. The only dramatic departure from previous practices is that even more attention is to be devoted to electronics, broadcasting, telex, telephone, and satellite communications. [II,243]

It is unlikely that substantial breakthroughs in power generation, road and rail transport, and telecommunications will occur during the Seventh Plan. Although advances will take place, they will still fall short of the targets set, so that

infrastructure shortages will continue to restrict growth in industry and agriculture.

#### Other Sectors in the Plan

Growth in agriculture, industry, energy, and infrastructure is putting immense strain on India's physical environment. Chapter 18 of the plan is devoted to pulling together in one place concerns and policies dealing with the environment. A Department of the Environment was established during the Sixth Plan. What is increasingly evident is that central and state projects undertaken within the planning framework are going to have to make concrete estimates of their environmental impacts; the private sector will also be increasingly regulated. Rapid exhaustion of forests and devastating extinctions of flora and fauna are crucial problems. Although it is too soon to say that India will act vigorously in this area, these concerns are likely to move toward center stage in plans yet to come. The chief factor will be how rapidly pressure groups in favor of environmental protection are mobilized.

The specific employment, manpower, and educational requirements implied by the development of agriculture, industry, and infrastructure are worked out in separate chapters. It appears plausible to believe that the realization of the growth rates for agriculture and industry will permit rapid growth of employment. Expanded rice acreage under HYV seeds will provide much employment, especially where the number of crops per year rises from one to two or two to three. Rural employment programs appear to have helped. Industrial employment gains will arise

from expansion of the small-scale and informal sector--the growth of which depends, in turn, on expansion of the large-scale public and private sectors.

Very important problems remain in Indian education. The plan hopes to make significant strides in reducing adult illiteracy and in getting school-age children into schools. Teacher quality is terrible, as the plan concedes, but except for in-service training programs, it proposes no new measures to upgrade what happens in the typical classroom. The intermediate and vocational schools rely on outmoded curricula and have no adequate library or laboratory facilities. A recent proposal calls for establishing model schools for the best students in each district, but this is only an obvious sop to rural elites. Quality standards in colleges and universities have declined at a rapid rate in the last 15 years. An important measure of the success of the Seventh Plan will be the extent to which headway can be made in the educational system, at all levels, and particularly at the apex--the colleges and universities. Without visible, widespread improvements in education, India's dreams of leapfrogging to a new scientific and technological age will not be realized.

The plan devotes eight chapters to social programs designed to bring welfare gains to disadvantaged groups such as women, the poor, scheduled castes and tribes, and backward areas. Urban and rural housing and amenities are also discussed. It does not, one hopes, diminish the importance of these activities to treat them only briefly. As any society finds, it is hard in India to use purely economic resources to remedy unhappy social

conditions. What is encouraging is that these programs do sometimes work. They are worth pursuing even when they only succeed in preventing things from getting worse and merely show that the government is trying to deal with a problem. A cavalier generalization is that India would be a much worse place to live--and possibly a politically more difficult society to manage--were it not for these programs.

#### Implementing the Plan

A plan is only a plan--it means nothing until it is translated into action. Its success depends on three things: (1) its internal consistency; (2) its feasibility, given all known resource and other constraints; and (3) the skill and resolve of its administrators and the extent to which they are supported by the larger political system of which they are part.

It is not necessary to be concerned about the consistency of the Seventh Plan. Presumably the planners have done their homework on what has become a routine task in the computer age; and, even if the plan is only almost consistent, it is probably self-consistent enough.

The feasibility of the plan is another matter. Plans require the mobilization of resources--largely financial resources in a monetary economy--and the direction of sufficient resources in support of the real economic activities to be undertaken. India has historically struggled to raise sufficient internal resources to fund its plans and has relied upon deficit finance and external aid and borrowing to close the gap between

revenues and expenditures. There has been a tendency for the state governments to overspend and for public enterprises to run smaller surpluses--or larger deficits--than anticipated. Always, however, the shortfalls have been closed and India has avoided runaway deficits, inflation, and chronic balance of payments crises.

Underlying causes of the resource shortages are the inelasticity of the tax base and its narrowness. Taxation on agriculture is virtually non-existent and direct taxes on personal and corporate incomes account for less than 3 percent of revenues. The most common types of taxes are customs duties and excises levied on consumer and producer goods. Tax evasion is common. As a consequence of these features of the revenue system, tax collections are not responsive to growth in agricultural or other incomes; the government, in effect, has difficulty in mopping up the gains of growth and recycling them into a new round of development spending. Furthermore, the customs duties and excises create substantial distortions in the economy as they pyramid through the production process.

There can be no doubt that financing the Seventh Plan is going to entail difficulties. Taxes need to be raised and burdens imposed. This is difficult in India's democratic political system. In the first two years of the current plan it appears that the government is relying on deficit finance more than anticipated. Public enterprises, including the railroads, are to issue bonds for the first time and will thus face future interest costs. The share of GDP being captured by the government dropped from 8.2 percent in 1971-76 to 7.9 percent in

1980-85. The recent Long Term Fiscal Policy statement makes plain the current inelasticity of the tax system and why the government has relied more and more heavily on borrowing. Still, India does not face insuperable financial problems, either internally or in the balance of external payments and will, as nations so often do, somehow muddle through its fiscal dilemmas. A significant plus is that India has extremely capable finance officials and economists inside and outside government.

The Seventh Plan is distinguished from earlier plans by the great weight put on improving operating efficiency and decision-making in the economy. Chapter 21 of the second volume is devoted to "Plan Implementation and Monitoring." It opens by saying, "The Seventh Plan proposes to emphasise the need for improvement of project formulation, sanction, implementation, and monitoring in development planning of all sectors." There is the sense that many projects--especially the states' projects--get into the plan without careful preliminary cost-benefit studies. A large backlog exists of proposed and half-completed projects which are heavily capital absorbing; these are found particularly in the power, railways, and major irrigation sectors. The flow of funds to such projects is to be speeded up, when there is merit in the project, and the letting of contracts is to be handled more speedily, to avoid delays and cost overruns.

A new note is heard in the plan, and while it is sounded elsewhere, its most comprehensive expression occurs in this final chapter. There is apparently to be a renewed effort to decentralize planning below the state level; that is, to activate



or reinforce something which has been on the books for a long time but has yielded few results: district and block planning. In 1982, the Planning Commission asked states to effect functional, financial, and administrative decentralization downwards to these levels; some complied during the course of the Sixth Plan. The Working Group on District Planning, which was formed at the same time, has recommended putting more power in the hands of the district collectors and permitting them to coordinate the efforts of the many departmental functionaries now operating in the districts. District Planning Bodies are to hold accountable district officials.

Clearly, decentralization of this type, if pursued with enthusiasm, would move India away from the top-down planning it has always practiced towards a mixed system in which bottom-up flows were also important. The big losers in this devolution would probably be state-level politicians and bureaucrats, more than those at the center, which would continue to operate its large projects and remain in control of areas allocated to it under the constitution. Stress is placed on the need for local involvement, the writing of meaningful district plans--which are then to be aggregated in the relevant areas into components of the national plan, and on much improved data collection and rapid forwarding of data to monitoring ministries in Delhi.

The dream of enhanced village and district involvement in the nation's plans has been a recurrent one among India's leaders. People's participation at local levels is an extension of popular democracy and may, rather naively, be based on the (erroneous) belief that India's village used to be happy little

independent republics managing their own affairs. The enthusiasm for local participation is predicated on a sense among the planners that the pursuit of planning must entail responding to the "felt needs" of the people who express them to the bureaucrats and elected officials via a hierarchy of elected councils.

To date, the experience with local participation has yielded some success and village, block, and district elections have often involved many rich and poor, high and low villagers in spirited politics in which non-trivial resources--wells, roads, schools--have been at stake. Nonetheless, the preponderant pattern is best epitomized in the following tale: It is a hot night in Rajpur village and the official visitor has held forth at great length on the need for the villagers to stage local elections and undertake village planning. He is perspiring and enthusiastic; then finally sensing the moment is ripe he says, "And now tell me what you need--what you would like us to help you do." There is a long silence. Finally, a representative of the village speaks, "No, sahib, tell us what you want us to do." Often he then had to and they dutifully did.

Local initiatives and governments are valuable to deal with local concerns such as schools, health clinics, veterinary services, and so forth. The politics of rural India is such, though, that more of these local councils will fail or will be dominated by old elites, who will capture their benefits, than will generate community-spirited ideas and bring forward representatives of the disadvantaged groups. Enough of the

latter results may happen, however, to make the effort worthwhile.

Such decentralized planning should not, of course, deflect the centralized efforts at the national level. India should have enough sense not to pursue China's strategy of backyard ironworks. Subramanian Swamy believes that it is infeasible to have both top-down and bottom-up planning simultaneously and that the top and center will continue to dominate. [Swamy,notes]

India faces substantial problems in energizing the bureaucracy, improving the management of the public sector enterprises, and activating management in the private sector so that all parts of the economy operate more efficiently. The training and the mindsets are not there; private and public managers are schooled in temporizing, passing decisions upstairs, delaying decisions that involve controversy, and maintaining the status quo. Public sector managers and officials are still generalists in the old ICS tradition and rotate through their positions every two years or so. It is not clear how the incentives are going to change within the public and private bureaucracies so that innovators and risk-takers are more appropriately rewarded. Blotting one's copybook with a mistake, even if it was well-intentioned and the risk was known beforehand, is still fatal to a young administrator's future; and there are many waiting to take his or her place. Rent-seeking and corruption in the private and public sectors are pervasive enough to offer attractive options to pursuing gains from courageous decision-making or to grasping for the brass ring of entrepreneurial profit.

Breaking through India's administrative culture--its values, attitudes, and behavior--is what is required for the Seventh Plan to reach its ambitious aims. Yet, it is very improbable that this culture will change overnight.

#### The Plan and Other Economic Policies

Since Rajiv Gandhi became Prime Minister the leading question of economic policy has been how far India will go in adopting more liberal, market-oriented economic policies. This is an extremely complex question; for example, not everyone means the same thing by "liberalization." There has always been a sense among western economists that India's plans have failed, or not worked very well, and that greater reliance on the market would be a cure for India's presumed ills. Consequently, they and American economic journalists--never known for their perspicacity on any subject--have become excited that fundamental changes are occurring or might occur in India's political economy.

[Bugwadia,25]

The Seventh Plan makes one thing totally plain: there is to be no change in the dividing lines between state and private economic responsibilities in India through 1990 or 2000. There is no mention of divestment, for example, or privatization of any part of the state sector. It is explicitly said that the government will retain control of the commanding heights of the economy; will continue to direct financial flows into activities it deems desirable; will raise the share of GDP absorbed by taxes; will assume greater responsibilities for coordinating all

aspects of industrial and infrastructural development; and will take the greatest burden of stimulating basic research and guiding technological absorption. Furthermore, the plan enlarges the government's efforts in social areas such as poverty relief, employment guarantees for the idle, help for the disadvantaged sections of the population, health, education, housing, sanitation, and water supplies.

What western economists have not understood is that the primary thrust of the plan, and related policy initiatives, is towards greater efficiency and a much higher rate of technological absorption. When they hear these terms they think automatically of greater scope for the market system and the private sector. When Indians articulate these ideas, however, as they do in the Seventh Plan, they do so within the institutional and ideological context of their own economy and polity. Indians are, by and large, proud of the public sector and what it has helped the economy achieve. They want it to operate more efficiently. They do not want to dismantle it. They worry about private business's size, power, and freedom of action and think government should supervise business; nor do they trust businessmen, speculators, and men of commerce. They also expect government to deal with social problems. The Seventh Plan almost perfectly reflects these sentiments, as have the six previous plans.

K.N. Raj points out that the vaunted "new economic policy" has never been set forth in any governmental white paper or report. He argues that it is difficult for anyone not to favor rationalization of taxes and more efficient operation of public

sector enterprises, although it is hard to identify a political interest capable of motivating the latter step. He cautions, that opening the economy too widely to imports and multinationals could undercut even successful Indian public and private businesses and lessen India's indigenous technological capacities. [Raj,29]

The 1985-86 budget lowered tax rates on corporations and upper income individuals. Much has been made of this but such taxes account for less than one-thirtieth of the government's revenue. The lower rates, a holiday on prosecution for past evasion, and more vigorous enforcement (the Minister of Finance sent squads into rich people's homes and inventoried wealth, which then had to be accounted for) actually resulted in a rise in collections. Imports were liberalized and a broader range of private business activities was released from licensing and regulation. Corporate stocks soared on the Bombay exchange. Then, the 1986-87 budget appeared and dampened government-business relations because no new concessions were made and redistributive policies once more came to the fore. One innovation was the introduction of MODVAT, a form of value-added tax that may assist the government in gathering more revenue and at the same time lessen distortions due to the impact of the present excise taxes. The tariff on imports of capital equipment was raised by 10 percent--not a friendly gesture towards firms desperate for new machines--and was a step back from the more open policies laid out in the 1985-86 budget.

In any given year the plan accounts for only about forty

percent of what the government is spending; and, non-plan expenditures are growing at twice the rate of plan expenditures. There are four current expenditure categories which have risen sharply in recent years and are putting pressure on plan resources. These are interest payments (now in first place); defense spending (rising at an average rate of 13 percent per year); salaries; and subsidies.

Defense expenditures have steadily taken a larger proportion of India's budget. Apart from the intrinsic merits of this decision, its consequences are that to some degree defense spending competes with developmental expenditures. This trade-off is, however, not as severe as many believe (cartoon of an Indian peasant with an empty rice bowl watching a formation of jet fighters fly overhead) because the army does useful things even in peacetime and employs people who would otherwise add to the problem of civilian unemployment. Public sector wages always rise; no government wants to make its employees unhappy. Subsidies for fertilizers, food, electricity, and water are too high and need to be curtailed, but there are political limits. The food and fertilizer subsidies total about \$4 billion a year.

Perhaps not much can be done about these budgetary pressures, except for the subsidies, which need to be whittled back as painlessly as possible, but it is worth recognizing that they do make realizing the plan more difficult.

#### Implications of the Plan for the United States

There are two types of linkages between the United States and India that will be affected by the Seventh Plan. These are

economic linkages: trade, aid, investment, and technology transfer; and cultural linkages: artistic, scientific, and educational exchanges. The principal observation is that there are more opportunities—more doors are open, or at least ajar—than in recent years. Still, the United States is not in an Oklahoma landrush situation; what will be required is careful negotiation and adroit nurturing of these opportunities. Indians and Americans are very good at bruising each others feelings and progress can only come slowly with patience, tact, and the building of mutual confidence. The greatest need is to be responsive to Indian concerns and approaches; the worst reaction would be to try to dragoon India into policies that it does not want to follow; or to chastise India for not fully living up to the United States' expectations of what India's recent economic policy statements, including those in the Seventh Plan, really meant.

Some specific comments may be offered about opportunities for interaction along economic and cultural lines:

**U.S. Exports.** The plan does not open wide new vistas for American exports. The stress remains on developing India's domestic capacities in machinery, chemicals, fertilizers, and basic industries; farm imports are, of course, not likely to be needed. The principal areas for U.S. exploitation are computers, software, and peripherals; aircraft; electronics, servomechanisms, and controls; defense and defense-related products; telecommunications.

**U.S. Imports.** Americans benefit from cheap imports from



India and their purchases help India's growth. Buying India's labor-intensive handloomed cloth, clothes, and handicrafts is doing a good deal more to alleviate poverty in the world than any number of bogus rock concerts. It is important to the success of India's plans that textiles, shoes and leather goods, and other manufactured goods continue to flow into the American market. Trade is a two-way street and a relatively open U.S. market can help India greatly.

**Investment.** Opportunities for significant American investment in India are likely to remain limited. India's policy towards foreign investment has not changed in any significant fashion. Americans are going to continue to find it difficult to participate directly in the Indian economy. Joint ventures with high technological content will be the principal avenue of entry; in such ventures American ownership will be limited to minority participation. Pressures will exist for research and development to be done onshore in India so that technological gaps do not reopen. Similarly, repatriation of profits or other returns will depend often on there being an export component explicitly built into projects. Foreign collaborations rose from 752 in 1984 to 1024 in 1985; U.S. firms were parties to 197; Germany 180; the U.K. 147; Japan 108; the U.S.S.R. 4. [India News,2]

India may rely somewhat more extensively than it has in the past on private credit from the international banking system, because access to soft loans has been much reduced. India is creditworthy and financially prudent and would be an attractive debtor. Borrowing is likely to be for specific, often large projects in the extractive or industrial fields. Repayment will

be predicated on there being an export component more than sufficient to make the project self-financing and the debt self-liquidating.

**Aid.** India neither needs nor wants a greatly expanded United States foreign assistance program. In several areas, however, the United States is well-qualified to provide technical assistance. In most of the high-technology areas U.S. technologies are still the world's best. Agriculture offers continuing potential for U.S. assistance. Important areas are opening up in food processing, food exports, and in the rapid growth crops and products demanded by India's middle and upper urban classes: milk, milk products, meats, fruits, and vegetables.

**Cultural, Scientific, and Educational Exchanges.** India's new interest in technology, science, and education offers many interesting possibilities for the United States, because Indians look to the U.S. as the world leader in these areas. America is the country of choice for many Indian postgraduate students. The United States should make a serious effort to capitalize on its advantages in training and education--to obtain the well-known long-run economic and political benefits to be gained. New exchange and scholarship programs are desirable possibilities. The linking up of business-educational-scientific transfers between the two countries in such fields as biotechnology and computer science should be considered.

## Conclusions and Prospects

To answer the question posed in this report's title: India's Seventh Plan is much more business-as-usual than new departure. The plan builds on past achievements and follows well-established practices and policies. More rapid growth is indeed feasible for India through 2000 and the plan resonates with an eagerness to seize the opportunity, which has been so long in coming. The quest for greater efficiency and the proposed acceleration of the absorption and extension of science and technology are entirely a propos. There is much to be done--and much that will not get done. In all ways, the Seventh Plan is a document fully reflective of modern India.

The plans have always had little to say about politics and sociology, yet the economics of the plan must be informed by political and social forces and the changing economy in turn puts pressure on established political and social structures. This is not an appropriate venue to sort through the details of the constellation of political forces that lie behind the structure of the plan; nor is it possible here to speculate about the political and social repercussions of the plan's economic thrusts. One must only admire any document about India that can, in some 500 pages, avoid any mention of caste--except in the one capitalized case: Scheduled Castes.

One important political reality does appear in the plan and grows out of the festering regional paranoias that threaten the integrity of the nation. The states, particularly those with incomes below average, are very much better treated in this plan and this may auger well for future stability and reduce center-

state tensions.

Population growth remains the utterly crucial issue, although it lies rather far outside the economic orbit in its causation and remedy. To be sure, economic growth does lessen population growth and well-funded programs can accelerate the spread of family planning practices. The Seventh Plan probably does not place the emphasis on population controls that it should. This is a tragedy and makes future economic growth all the harder to sustain. In addition, population growth contributes directly to two of the major thematic problems areas that are touched on throughout the plan: employment generation and environmental damage.

There is alarming confusion and ambiguity about time horizons and the sequencing of events in the plan, and thus about coordination. Part of this arises from the double character of the plan: it is both a five year plan and a fifteen year horizon outlook. It is hard to tell whether things are to be accomplished over the shorter or longer period. This is linked to another peculiarity of this plan: namely that it seeks what might be called absolute "closure." Previously plans hoped to make progress towards distant goals, such as the eradication of poverty or the realization of full employment. This plan, in contrast, pledges to eradicate poverty, reach full employment, make everyone literate, get the net reproduction rate of the population down to one--if not over the five year plan, certainly by 2000 or thereabout. This makes the plan seem unrealistic and unfulfillable; plus this attitude condemns the plan to failure,

since none of these things will be closed out as problems. High expectations may lead to great disappointment with the plan and with the government somewhere down the road, particularly if the weather does not cooperate or if there are border troubles or internal schisms.

The plan is weak in identifying true priorities. Hope is running so high that each chapter talks without caution or balanced judgement of thrust areas, utmost urgencies, and key steps. When everything is a priority, the plan is no longer a guide to action. Each chapter was apparently written by a different person or committee, and perhaps designed to appeal to a particular constituency. The plan therefore lacks a unifying vision and a set of explicit, clearly ordered priorities.

The real question, of course, is what the priorities really are and who will set them. This cannot be known until 1990 when results and expenditure patterns can be reviewed. Even India's powerful Prime Minister cannot know with any real certainty where the plan will lead. He and his planners must, after all, try to steer a large economy in a world of uncertain events; and they are only one force in a complex, multicentric democracy managed by an obdurate bureaucracy.

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